

*Income Tax Act*

Nevertheless, I submit, Mr. Chairman, through you to the parliamentary secretary that since there is a demand for this product, since our neighbours to the south want it, it would be the essence of common sense for the government to say to those exploring for oil and gas, "Not only will we make the tax laws applying to you beneficial; we will make them even more beneficial than they have been." It seems to me that you will not get people to risk their money for holes to be dug in the ground in search of oil and gas unless there is a reasonable prospect that at some point they may receive some benefit from the venture. After all, they will drill many dry holes in the process.

The government, I submit, should be encouraging exploration because a market for gas has been established. I have found that when there is a demand for a product, people do their best to produce it and meet the demand. When there is demand, people will always attempt to fill it. The government, however, will not acquire for this country additional supplies of oil and gas if it imposes taxes so onerous that people will not undertake the risks associated with the finding of those products.

My time has almost expired. I urge the parliamentary secretary to note what has been said about small business. There is one more thing I want to say. If an owner should dispose of a small business, what would be the difference to him if he were to dispose of it to a Canadian owner as opposed to a foreign owner? It seems to me that someone should rise and in simple language tell the members of the committee just what is the position of the owner of a small business and what he can do in this regard. I realize that some may say, "Why do you not read the bill?" I much prefer to hear an expert who is familiar with the bill and has studied it explain to the committee what he has discovered. I hope that before long we will receive in this committee a simple explanation. How will the owner of a small business be affected if he sells his business to Canadians or if he sells it to foreign owners? What will be the difference to him?

I come back to my first observation. I do not understand why the proclamation provision should not apply to the entire bill. It could be proclaimed if the government, after it has discussed the matter in this chamber, feels it is desirable to do so in the interests of the people of Canada.

**Mr. Lambert (Edmonton West):** Mr. Chairman, in resuming the discussion on section 125 dealing with small business may I say that the committee should know that under section 125(2) the maximum deduction in any one year is, as has been mentioned many times, \$50,000. There will be a \$12,500 deduction in 1972, reducing to \$10,500 in 1976 and subsequent years. However, that is but one opinion. The truth of the last observation depends upon the correctness of the interpretation—and I trust the parliamentary secretary will speak about this—which the hon. member for Vegreville and I made regarding where the deductions apply to the 25 per cent figure referred to in section 125(1).

The \$50,000 is a corporation's business limit. Those words come right out of the legislation. Also, the hon. member for Carleton-Charlotte made the point that once a company has reached the level of \$400,000 of taxable

[Mr. Flemming.]

income—and it need not have reached it at the rate of \$50,000 a year for eight years, because the corporation could have made \$100,000 in one year—the total or, shall we say, maximum qualification is exhausted.

Here we have a total business limit minus a cumulative deduction account operating at the end of the immediately preceding year. Mr. Chairman, total business limit and cumulative deduction account are two brand new terms which have been introduced into the Income Tax Act, and neither the departmental officials nor the professionals have been able to settle on the items that go to making up these so-called totals. Unless one can get an absolutely clear appreciation of these terms it will be impossible to determine what is the result of the business operation for the year. I think the Minister of Finance gave the impression, as did some people talking about the provisions affecting small business as disclosed in June, that the government was being very generous to small business. Frankly, that is absolutely the reverse of the truth.

• (5:50 p.m.)

First, \$35,000 has been eroded by inflation and the devaluation of the dollar. The net result is that it is much easier to get to \$35,000 and then go to the higher rate. The government is the beneficiary of this progression from the lower to the higher tier. Actually, the so-called low rate as a small business incentive is considerably less attractive than the former one. The annual taxable income is less than \$35,000.

In an extreme situation, an otherwise qualified corporation that earned taxable income of \$400,000 in the first year of the new system and paid no dividends would be eligible for a \$50,000 small business deduction in that year but no subsequent deduction. A corporation accumulating taxable income would only be eligible for the small business deduction on its income each year until its taxable income totalled \$400,000. It would then cease to qualify for the small business deduction. You have to contrast this with the present system whereby the low rate on the first \$35,000 applies indefinitely.

It will be noted that taxable income is an important factor in the cumulative deduction account, so the \$400,000 maximum amount will be net in respect of business losses but will include non-business income and capital gains. We note that in other areas the low rate cannot apply to non-business income or non-domestic income, yet the accumulation of \$400,000 of taxable income will include non-business income and non-Canadian income. Therefore, small business is doubly hit.

Surely, equity suggests that if the company is to be taken out of the category of small business by having reached the \$400,000 ceiling, this should apply only to the total income which qualifies for the lower rate. In other words, active businesses earning Canadian income are the only ones that qualify for the lower rate. Justice says the \$400,000 ceiling should apply to the total of that type of income and not bring in all the others which now qualify for the lower rate and on which the government, under the act, will exact a 50 per cent rate or whatever will be the appropriate rate by 1976.

Let us look at ineligible investments under sections 188 and 189. Further complexities arise where ineligible investments are made; for example, where a corporation